

**MINUTES OF THE
NATURAL RESOURCES APPROPRIATIONS SUBCOMMITTEE
February 2, 2006
Room W130, West Office, Building, State Capitol Complex**

MEMBERS PRESENT: Sen. Thomas Hatch, Co-Chair
Rep. Bradley T. Johnson, Co-Chair
Sen. Parley Hellewell
Rep. Carl W. Duckworth
Rep. Ben C. Ferry
Rep. Kerry W. Gibson
Rep. James R. Gowans
Rep. John G. Mathis
Rep. Ronda R. Menlove
Rep. Michael E. Noel

MEMBERS ABSENT: Sen. Mike Dmitrich, Sen. Beverly Evans, and Rep. Rebecca Lockhart.

STAFF: Ivan Djambov, Fiscal Analyst
Cindy Hopkin, Committee Secretary

SPEAKERS: Kevin Carter, Dir. SITLA; Michael Morris, Vice Chair Trustees and Board; Margaret Bird, Utah State Office of Education School Land Trust Program; John Baza, Dir. Oil Gas and Mining; and Mike Canning, Utah Division Wildlife Resources.

Note: A list of visitors and a copy of handouts are filed with the committee minutes.

Sen. Hatch called the meeting to order at 2:20 p.m.

MOTION: Rep. Gowans moved to approve the minutes of January 26, 2006. The motion passed unanimously with Sen. Dmitrich, Sen. Evans, Rep. Ferry, Rep. Lockhart, and Rep. Menlove absent for the vote.

The Fiscal Analyst presented the budget requests for SITLA. The agency is requesting funding to produce and implement a project accounting system. The Analyst recommends for FY 2006 an appropriation of \$50,000 from the restricted account.

Additional funding is requested to accommodate appraisal fees associated with Rural Telecom easement analysis and public notices of easements. The Analyst recommends for FY 2006 a supplemental appropriation of \$40,000 from the restricted account.

SITLA is requesting for FY 2007 an ongoing appropriation of \$10,000 to contract for outside/onsite oil and gas audits. The Analyst recommends the Committee fund this request.

SITLA's Development Group has several requests that include a supplemental appropriation of \$2,700,000 for FY 2006 (a 47% increase from the FY 2006 appropriation) and an additional ongoing appropriation of \$3,800,000 for FY 2007 for capital development projects (a 76% increase from the FY 2006 appropriation). These requests are only a small portion of SITLA's six year plan for spending over \$60 million for capital development, in addition to hiring 5 new employees (a 50% increase from the current staff level).

Funding SITLA's building block requests would result in significant growth of the Development Group. However, the recently released A Performance Audit on the School & Institutional Trust Land Administration has raised several concerns about the current controls and oversight of SITLA, as well as the past performance of the Development Group.

The Analyst recommended that the Natural Resources Appropriation Subcommittee request the Audit team to perform a follow-up review on SITLA's progress and report to this Subcommittee by the first week of the 2007 General Session. The Audit team should identify whether SITLA's Board of Trustees has developed appropriate controls to govern the Development group and report on the implementation of the audit recommendations.

Further, the Analyst recommended the Subcommittee request the Audit team to work with SITLA to develop a reporting format that SITLA should use to report at least annually to the Legislature for each of their major development projects. The new format should include initial financial analysis of project, including appraised value and initial land value, and process used to award the project. It should also include an analysis of actual revenues earned to projected revenue, complete project costs, and investment returns to the trust. The new format should be presented to the Subcommittee for approval before August 31, 2006.

Dir. Kevin Carter presented some of SITLA's highlights for the past year. The agency had a record income for FY 2005 with gross revenues of over \$100 million. The agency was created in July 1994 and gross revenues that first year were \$14 million. There has been a return of domestic uranium industry in the United States and in Utah. SITLA has property for lease for uranium development with a mine and a mill on the property.

The agency has been successful in leasing a couple of coal tracts this last year that were acquired as part of the in-holdings land exchange. Last session the Legislature approved a class 5 permit for a landfill out in Tooele County that is now constructed and the agency has received their first royalty payment of over \$100,000.

SITLA developed a mitigation bank this past year and got it approved by the Fish and Wildlife Service. Prairie dogs are a listed species which limits the amount of development that can take

place in the community and the county around Cedar City. The agency found property removed from Cedar City on Parker Mountain south of Fish Lake and created some prairie dog reserves and by doing that they were able to get credit to move the limits on development in the Cedar City area. The agency sold all of those credits to Iron County. SITLA took land that had very little income potential and use and got a significant return on their investment; at the same time allowing Cedar City to continue development and growth in their area.

Sen. Hatch asked for the value for each prairie dog. Dir. Carter responded that it was about \$1,800 per prairie dog.

Several years ago the Legislature approved \$1.50 from each off highway vehicle (OHV) registration to come back to SITLA for use to deal with OHV problems that occur on trust lands. That money has been used to perfect easements on hundreds of miles of roads into county ownership. They have also taken care of several sites where OHV use had abused the land through fencing and mitigation and participated with other state agencies in publishing maps to show where OHV rides can take place and where organized events can occur without causing damage to people's properties.

SITLA is funded by its revenues that are appropriated by the Legislature and not tax monies, so there are no General Fund consequences to their appropriations. If the Legislature did not appropriate revenue to the agency, it would not go into the General Fund; it would go into the Permanent School Trust Fund and would not be available to be spent any other place. Monies that the agency does not spend by the end of the year go back into the Permanent School Trust Fund.

In 1995 SITLA's budget was 15% of their earnings; last year it was 7%.

The agency is requesting appropriations to do a geophysical assessment on some of their lands out in the west desert. They need the data from that to make decisions regarding the financial potential of the land. The agency is requesting appropriations to hire additional FTEs to aid in land planning, easement processing, their accounting system, website enhancement, and the audit on development projects; they also need a construction manager. They will also need another vehicle for the additional FTEs.

Dir. Carter provided a handout detailing the agency's Capital Requests. The monies not appropriated to SITLA go into the Permanent Fund to be invested by the Treasurer who will probably get about 3% return. If the money is invested with SITLA they will be able to do better than that.

Vice Chair Michael Morris spoke about the audit and the importance of taking into consideration the discount rate, the time continuum of when the cash flows come in from investments and the retail price of what is being sold when doing an internal rate of return analysis.

Margaret Bird spoke in strong support of SITLA, the agency's accomplishments and benefit to Utah's school land trust program.

MOTION: Rep. Gibson moved to approve the Analyst's recommendation that the Natural Resources Appropriations Subcommittee request the Audit team to perform a follow-up review on SITLA's progress and report to this Subcommittee by the first week of the 2007 General Session. The Audit team should identify whether SITLA's board of Trustees has developed appropriate controls to govern the Development group and report on the implementation of the audit recommendations.

with The motion also included that the Subcommittee request the Audit team to work
new SITLA to develop a reporting format that SITLA should use to report at least annually to the Legislature for each of their major development projects. The format should include initial financial analysis of project, including appraised value and initial land value, and process used to award the project. It should also include an analysis of actual revenues earned to projected revenue, complete project costs, and investment returns to the trust. The new format should be presented to the Subcommittee for approval before August 31, 2006. The motion passed unanimously with Sen. Dmitrich, Sen. Evans, and Rep. Lockhart absent for the vote.

The Fiscal Analyst presented the budget requests for the Utah Division of Oil, Gas and Mining (DOGM). Oil and gas exploration and drilling has hit all time highs in the past two years. This has increased the demands to prepare environmental impact analyses for these projects. The division is requesting for FY 2006 a supplemental appropriation of \$70,000 and for FY 2007 an ongoing appropriation of \$280,000 from the General Fund Restricted Oil and Gas Conservation Account for two biologists from the DWR, who will work with the oil and gas industry to speed up the permitting and drilling, and protect the habitat through cooperative efforts. The Analyst recommends the Committee fund this request.

The division is requesting for FY 2006 a supplemental appropriation of \$50,000 and for FY 2007 a one-time appropriation of \$280,000 from the General Fund Restricted Oil and Gas Conservation Account for the research and development of an adequate electric permitting system. The Analyst recommends the Committee fund this request.

The division is requesting for FY 2007 an on-going appropriation of \$290,000 from the General Fund to hire two environmental scientists and one engineering tech. The Analyst recommends

the Committee provide one-time funding of \$290,000 from General Fund through internal reallocation because it is difficult to get on-going funding from General Fund sources and since many of the activities in oil, gas and minerals are cyclical so that after 2 or 3 years of one-time funding the need may no longer be there for the additional staff.

There is new intent language this year to request for authorization to purchase two new vehicles from the funding they received last year.

Dir. John Baza addressed the division's budget needs. Consultants with oil and gas expertise will be needed to analyze the Utah Oil and Gas program's current workflow, databases, rules, industry integration, forms, and needs to determine what can be done to improve efficiencies to staff and customers. The consultants are also needed to analyze existing methodology in the Utah program and other oil and gas producing states to devise a plan for developing applications that will meet OGM requirements and industry standards. The cost estimate for this is \$50,000.

An online e-permit system is needed to allow operators to submit drilling and other applications electronically. This will require programmers with oil and gas experience. The new permit system will preferably be build with .Net, XML, and SQL technology to correspond with existing systems. The division needs to develop a workflow system to allow internal tracking of application and permits, and other reports, progress monitoring, and electronic reports back to operators. It must be integrated with industry-specific oil and gas databases and scanning images. The total cost estimate for this is \$100,000.

The division's ongoing expenses for operation and maintenance will be absorbed by efficiencies and reallocation of FTEs and other resources.

MOTION: Rep. Gowans moved to adjourn the meeting at 4:10 p.m. The motion passed unanimously with Sen. Dmitrich, Sen. Evans, Sen. Hellewell, and Rep. Lockhart absent for the vote.